

**STATE OF MINNESOTA  
DEPARTMENT OF COMMERCE  
BULLETIN 2006-3**

July 18, 2006

Township Mutual Insurance Companies

Section 67A.241 of the Minnesota Statutes requires that the records and accounts of any township mutual insurance company be examined at least once every three years by an independent public accountant. The following, CONTENTS OF EXAMINATION REPORT, explains what is required to comply with the statute.

**CONTENTS OF EXAMINATION REPORT**

A. Opinion of the Independent Public Accountant:

1. The balance sheet shall be examined by the independent public accountant in accordance with generally accepted auditing standards.
2. The opinion of the independent public accountant shall be expressed on the most current December 31 balance sheet.
3. The opinion on the balance sheet shall be relative to conformity with accounting practices and principles prescribed or permitted by the Commissioner of Commerce (Insurance) of the State of Minnesota.
4. The opinion shall be addressed to the Company on stationery of the independent public accountant showing the address of issuance, shall bear original manual signatures and shall be dated.

B. Financial Statements:

1. Statement of Admitted Assets, Liabilities and Policyholders' Surplus (Balance Sheet). The balance sheet of the township mutual insurance company shall be prepared in a form and using language and groupings substantially the same as that contained in the insurer's annual statement filed with the Commissioner.
2. Statement of Income: The statement of gain or loss from operations shall be prepared in a form using language and groupings substantially the same as the statement of income contained in the annual statement filed with the Commissioner.
3. Policyholders' Surplus Account: such statement shall include the information included in the policyholders' surplus account of the company's annual statement filed with the Commissioner.
4. Notes to the Financial Statement: The notes to the financial statement shall be those required by generally accepted accounting principles and shall include a reconciliation of differences, if any, between the audited financial statement and the annual statement filed with the Commissioner with a written description of the nature of these differences.

5. The financial statement shall be comparative, presenting the amounts of December 31 of the current year and the amounts as of December 31 of all preceding years under examination.

C. Scope of Examination:

Minnesota Statutes 67A.241 requires that the examination cover financial and business affairs of the company including the treatment of members and claimants for the examination period. The financial affairs are covered by the opinion of the independent public accountant. The examination report is to include a section entitled Scope of Examination covering the procedures which were followed in reviewing the business affairs and treatment of policyholders and claimants of the company. The procedures should include:

1. Review of corporate records to verify that the company is in compliance with its articles of incorporation and bylaws.
2. Review of records pertaining to agents soliciting business to verify that such parties are duly licensed by the State of Minnesota and that the agents and the company are acting within the scope of their authority.
3. Review all investment transactions made during the period to ascertain compliance with applicable statutes.
4. Review a sample of active policies for rating accuracy, including compliance with rate filings, proper application of rates, and compliance with the stated policy provisions.
5. Review a sample of policies selected from the company's records of canceled policies and recalculate return premiums to determine their accuracy.
6. Review a sample of claims selected from the company's records of claim payments and determine that (a) elapsed time from date of reporting to date of settlement is not excessive; (b) amount of claim settlement conforms to policy coverage and; (c) proper documentation existing supporting the nature and basis of the claim.
7. Review files pertaining to policyholder complaints received during the period. Note the evidence of resolution of the claims and whether any trends or similarities exist.
8. Review the statutory financial statements for each of the years covered for conformity with insurance accounting principles and practices prescribed or permitted by the Department of Commerce.
9. A Summary of the findings resulting from the procedure followed in reviewing the business affairs and treatment of policyholders and claimants should be contained in this section of the examination report.

D. Accountant's Letter:

The independent public accountant shall furnish the township mutual insurance company, for inclusion in the examination report, a letter stating:

1. That he/she is independent with respect to the company as specified in the Rules of the Minnesota State Board of Accountancy.
2. The general background and experience of the staff assigned to the engagement in conducting audits of financial institutions and whether each staff member is an independent public accountant. Nothing herein shall be construed as prohibiting the public accountant from utilizing such staff as deemed appropriate where such use is consistent with the standards prescribed by generally accepted auditing standards.
3. That the independent public accountant is aware of the Minnesota Statutes and Regulations that relate to accounting, financial and business affairs of a township mutual insurance company and affirming that he/she will express an opinion on the financial statements in conformity with the statutory accounting practices prescribed or otherwise permitted by the Minnesota Department of Commerce, specifying such exceptions as is believed appropriate.
4. A representation that the independent public accountant is properly licensed by the Minnesota State Board of Accountancy and currently in good standing.

Companies are to respond to any deficiencies noted in their external examination report or management letter with a reply to their auditors. A copy of this reply is to be sent to the attention of the financial Examinations Division - Insurance at the Department of Commerce.

Section 67A.231 of the Minnesota Statutes addresses those investments in which the directors of any township mutual insurance company may authorize their treasurer to invest its funds. Companies are to provide a complete and accurate description of their investments in the annual statement. External auditors are required to disclose any investments which have a questionable legality under Section 67A.231.

Township mutual insurance companies with evident financial problems will be subject to Commerce Department examinations at the Commissioner's option as provided in Section 67A.241, subdivision 3.

Questions regarding this Bulletin should be directed to Mr. Stephen A. Soldwedel at (651) 296-2630.



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GLENN WILSON  
Commissioner of Commerce